

**REPORT OF THE AUDIT OF THE
LETCHER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2001**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LETCHER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2001**

The Auditor of Public Accounts has completed the Letcher County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances decreased by \$401,723 from the prior fiscal year. Even though fund balances decreased, there was a cash surplus of \$2,125,175 as of June 30, 2001. Of this cash surplus, \$1,570,084 is reserved for the completion of Local Government Economic Development grant capital projects. Revenues decreased by \$2,746,225 from the prior year and disbursements decreased by \$480,185. The decrease in revenues is attributed primarily to nonrecurring Local Government Economic Development grant funds received in the prior year.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$4,369,000. Future collections of \$7,543,692 are needed over the next 26 years to pay all bonded debt principal and interest.

Report Comments:

- The Fiscal Court Should Review The Administrative Code Annually
- The County Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Receipts Should Be Properly Posted To The Receipts Ledger
- The County Treasurer Should Prepare A Federal Expenditures Schedule
- The Jailer Should Submit His Annual Jail Commissary Report To The County Treasurer
- The Jailer Should Properly Account For Jail Canteen Transactions
- The County Treasurer Should Properly Account For Payroll Revolving Accounts
- The Fiscal Court Should Maintain Correct Records

Deposits:

The fiscal court's deposits were not adequately insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Carroll A. Smith, Letcher County Judge/Executive

Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Letcher County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Letcher County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Letcher County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001, of Letcher County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Carroll A. Smith, Letcher County Judge/Executive
Members of the Letcher County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2002, on our consideration of Letcher County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Letcher County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Fiscal Court Should Review The Administrative Code Annually
- The County Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Receipts Should Be Properly Posted To The Receipts Ledger
- The County Treasurer Should Prepare A Federal Expenditures Schedule
- The Jailer Should Submit His Annual Jail Commissary Report To The County Treasurer
- The Jailer Should Properly Account For Jail Canteen Transactions
- The County Treasurer Should Properly Account For Payroll Revolving Accounts
- The Fiscal Court Should Maintain Correct Records

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 26, 2002

LETCHER COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Carroll Smith	County Judge/Executive
Nolane Banks	Magistrate
Mack Fultz	Magistrate
Wayne Fleming	Magistrate
Homer Rose	Magistrate
Robert Lewis	Magistrate

Other Elected Officials:

Harold Bolling	County Attorney
Gary Cornett	Jailer
Winston Meade	County Clerk
Margaret Nichols	Circuit Court Clerk
Steve Banks	Sheriff
Randy Hall	Property Valuation Administrator
Delbert Anderson	Coroner

Appointed Personnel:

Phillip Hampton	County Treasurer
Mark Hawks	Finance Officer

STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

LETCHER COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash \$ 117,637

Road and Bridge Fund:

Cash 206,632

Jail Fund:

Cash 14,065

Local Government Economic Assistance Fund:

Cash 1,597,229 \$ 1,935,563

Special Revenue Fund Type

Senior Citizens Fund:

Cash 10,801

Debt Service Fund Type

Public Properties Corporation Fund:

1964 Bond Issue - Cash \$ 56

1999 Bond Issue - Cash 178,755 178,811

Total Assets \$ 2,125,175

Other Resources

Debt Service Fund Type

Public Properties Corporation Fund:

Amounts to be Provided in Future Years for Bond Payments:

1964 Bond Issue (Note 6A) \$ 23,944

1999 Bond Issue (Note 6B) 4,166,245 4,190,189

Total Assets and Other Resources \$ 6,315,364

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

Payroll Revolving Account - Cash Deficit	\$	8,233
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Debt Service Fund Type

Public Properties Corporation Fund:

Bonds Not Matured - 1964 Issue (Note 6A)	\$	24,000	
Bonds Not Matured - 1999 Issue (Note 6B)		<u>4,345,000</u>	4,369,000

Fund Balances

Reserved:

General Fund Type

	1,570,084
Local Government Economic Assistance Fund (Note 4)	

Unreserved:

General Fund	\$	109,404	
Road and Bridge Fund		206,632	
Jail Fund		14,065	
Local Government Economic Assistance Fund (Note 4)		<u>27,145</u>	357,246

Special Revenue Fund Type:

Senior Citizens Fund	<u>10,801</u>
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Total Liabilities and Fund Balances	<u><u>\$</u></u>	<u>6,315,364</u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

LETCHER COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2001

	Totals (Memorandum Only)	General Fund Type		
		General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 5,781,594	\$ 2,600,795	\$ 1,197,459	\$ 353,402
Other Financing Sources:				
Transfers In	1,438,026	410,000	200,000	162,609
Borrowed Money	200,085	200,085		
Total Cash Receipts	<u>\$ 7,419,705</u>	<u>\$ 3,210,880</u>	<u>\$ 1,397,459</u>	<u>\$ 516,011</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 5,885,056	\$ 2,318,901	\$ 1,069,878	\$ 544,875
Other Financing Uses:				
Schedule of Other Expenditures	1			
Transfers Out	1,438,026	610,417	200,000	
Bonds:				
Principal Paid	87,000			
Interest Paid	211,260			
Borrowed Money Repaid	200,085	200,085		
Total Cash Disbursements	<u>\$ 7,821,428</u>	<u>\$ 3,129,403</u>	<u>\$ 1,269,878</u>	<u>\$ 544,875</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (401,723)	\$ 81,477	\$ 127,581	\$ (28,864)
Cash Balance - July 1, 2000	<u>2,526,898</u>	<u>36,160</u>	<u>79,051</u>	<u>42,929</u>
Cash Balance - June 30, 2001	<u>\$ 2,125,175</u>	<u>\$ 117,637</u>	<u>\$ 206,632</u>	<u>\$ 14,065</u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2001
 (Continued)

General Fund Type			Debt Service Fund Type	
	Local Government Economic Assistance Fund	Special Revenue Fund Type Forestry Fund	Public Properties Corporation 1964 Bond Issue	Public Properties Corporation 1999 Bond Issue
			Senior Citizens Fund	
\$ 1,309,385	\$ 3,327	\$ 184,601	\$ 12	\$ 132,613
200,000	315	265,000	9,120	190,982
<u>\$ 1,509,385</u>	<u>\$ 3,642</u>	<u>\$ 449,601</u>	<u>\$ 9,132</u>	<u>\$ 323,595</u>
 \$ 1,506,398	 \$ 3,642	 \$ 441,362	 \$	 \$
 617,609		 10,000	 1	
			8,000	79,000
			1,120	210,140
<u>\$ 2,124,007</u>	<u>\$ 3,642</u>	<u>\$ 451,362</u>	<u>\$ 9,121</u>	<u>\$ 289,140</u>
 \$ (614,622)	 \$	 \$ (1,761)	 \$ 11	 \$ 34,455
<u>2,211,851</u>	<u></u>	<u>12,562</u>	<u>45</u>	<u>144,300</u>
<u>\$ 1,597,229</u>	<u>\$</u>	<u>\$ 10,801</u>	<u>\$ 56</u>	<u>\$ 178,755</u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Letcher County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Public Properties Corporation - 1964 and 1999 Bond Issues as part of the reporting entity.

The Public Properties Corporation - 1964 and 1999 Bond Issues (the Corporation) is an entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

Additional - Letcher County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Letcher County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Letcher County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Letcher County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Forestry Fund and the Senior Citizens Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation - 1964 Bond Issue and the Public Properties Corporation - 1999 Bond Issue. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Letcher County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fund - 1964 Bond Issue and the Public Properties Corporation Fund - 1999 Bond Issue Debt Service Funds because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require these funds to be budgeted.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Letcher County Fiscal Court: Letcher County Industrial Development Authority, Letcher County Water and Sewer District, Letcher County Library District, Letcher County Health District, and Letcher County Extension District.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

LETCHER COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 30, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$61,666 of public funds uninsured and unsecured.

Note 4. Local Economic Assistance Fund

The ending cash balance of Local Government Economic Assistance Fund was \$1,597,229 as of June 30, 2001. Of this amount, \$1,570,084 was reserved for the completion of capital projects. The Department for Local Government authorized certain capital construction projects from the coal severance tax project plan of House Bill 502. These projects were started in the prior fiscal year, but were not completed at fiscal year end. The projects had a beginning balance of \$2,104,640 at July 1, 2000. During fiscal year ended June 30, 2001, the county deposited Local Government Economic Development Fund grant receipts totaling \$46,307 into the Local Government Economic Assistance Fund. \$580,863 was expended during the year, leaving a remaining reserved balance of \$1,570,084.

Note 5. Operating Lease:

The County has entered into the following lease-purchase agreement:

<u>Description</u>	<u>Periodic Payment</u>	<u>Terms of Agreement</u>	<u>Purchase Date</u>	<u>Maturity Date</u>
Garbage Truck	\$ 1,973	60 Months	June 28, 2000	June 28, 2005

LETCHER COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 6. Long-Term Debt

A. 1964 Bond Issue

On May 1, 1964, the Public Properties Corporation issued bonds at a 3.5 percent interest rate. As of June 30, 2001, the principal amount outstanding was \$24,000. Future bond payments are as follows:

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2002	\$ 840	\$ 8,000
June 30, 2003	560	8,000
June 30, 2004	<u>280</u>	<u>8,000</u>
Totals	<u>\$ 1,680</u>	<u>\$ 24,000</u>

B. 1999 Bond Issue

On January 18, 1999, the Public Properties Corporation issued bonds in order to renovate the courthouse and detention center. On January 1, 1999, the Public Properties Corporation and the Administrative Office of the Courts (AOC) entered into a lease agreement for the purpose of obtaining office rental space for the AOC.

The premises leased by the AOC will provide revenues to pay a portion of the bond principal and interest. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank their pro rated share of the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payments in order to meet a portion of the debt service requirements for the bonds.

The use allowance payments commenced with occupancy of the office space by the AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payments in each successive biennial budget period until May 1, 2027, but the lease does not legally obligate the AOC to do so.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 6. Long-Term Debt (Continued)

B. 1999 Bond Issue (Continued)

As of June 30, 2001, the principal balance remaining was \$4,345,000. Future bond payments are as follows:

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2002	\$ 206,388	\$ 84,000
June 30, 2003	202,398	88,000
June 30, 2004	198,218	91,000
June 30, 2005	193,895	97,000
June 30, 2006	189,318	101,000
June 30, 2007-2011	868,918	594,000
June 30, 2012-2016	712,595	762,000
June 30, 2017-2021	512,050	980,000
June 30, 2022-2026	254,268	1,258,000
June 30, 2027-2028	13,775	290,000
Totals	<u>\$ 3,351,823</u>	<u>\$ 4,345,000</u>

Note 7. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Letcher County Jail Canteen fund had income of \$77,635, less cost of goods sold of \$62,871, leaving a net income of \$14,764 as of June 30, 2001. The Jail Canteen Fund had a beginning balance of \$26,576 which results in an ending balance of \$41,340. A portion of the jail canteen's ending balance consists of inmate's personal cash that is deposited into the canteen account. Inmates are allowed to use their personal cash to purchase items from the canteen account. When the inmate is released, they are refunded the remaining balance of their personal cash. We are unable to identify the portion of the ending balance that belongs to the prisoners since the jailer did not maintain the inmates' subsidiary records on a fiscal year basis.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 8. Landfill Closure Costs

KAR 48.310 Section 2 and 3 requires the owner or operator of a landfill to have a detailed written estimate, in current dollars the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan. As of June 30, 2001, 100 percent of the landfill capacity had been used.

Estimated closure costs range between \$2,000,000 and \$4,000,000. Actual costs could be higher due to inflation, changes in technology, or changes in regulations. However, it is highly probable that Letcher County will not incur this cost, as it is high on the State's list of landfill closures that will be done from money raised through House Bill 174. House Bill 174 transfers the responsibility for closing the landfill to the state. The state will generate funds for landfill closure from the sale of bonds and from the imposed solid waste tipping fee. According to House Bill 174, the Environmental Cabinet will suspend enforcement activity until July 2006.

Note 9. Related Party Transaction

During fiscal year ended June 30, 2001, the county completed two related party transactions involving the County Judge/Executive and his sister. One related party transaction involved the sale of property in the amount of \$65,279 to the county for the Whitesburg Industrial Project. The County Judge/Executive's sister has an interest in this property. The other related party transaction involved items purchased from a market totaling \$3,312. The County Judge/Executive's sister has an interest in this market. According to the Letcher County Code of Ethics, any county officer or a member of his immediate family, who has a private interest in any matter pending before the court shall disclose such private interest on the records of the court and shall disqualify himself from participating in any decision or vote relating thereto. We have reviewed the fiscal court minutes and found that the County Judge/Executive called this matter to the fiscal court's attention and abstained from voting.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

LETCHER COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Type</u>			
General Fund	\$ 3,931,724	\$ 2,600,795	\$ (1,330,929)
Road and Bridge Fund	1,117,945	1,197,459	79,514
Jail Fund	367,542	353,402	(14,140)
Local Government Economic Assistance Fund	1,557,713	1,309,385	(248,328)
<u>Special Revenue Fund Type</u>			
Senior Citizens Fund	4,000	3,327	(673)
Forestry Fund	438,298	184,601	(253,697)
Totals	<u>\$ 7,417,222</u>	<u>\$ 5,648,969</u>	<u>\$ (1,768,253)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 7,417,222
Add: Budgeted Prior Year Surplus	2,339,622
Less: Other Financing Uses	
Borrowed Money-	
Bank Note - Principal	(202,000)
Transfers to Public Property	(202,184)
Corporation Fund	
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 9,352,660</u>

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SCHEDULE OF OPERATING REVENUE

LETCHER COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

Revenue Categories:	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 1,096,951	\$ 1,093,624	\$ 3,327	\$
In Lieu Tax Payments	785	785		
Excess Fees	8,000	8,000		
Licenses and Permits	9,133	9,133		
Intergovernmental Revenues	3,575,877	3,290,665	157,212	128,000
Charges for Services	853,684	853,684		
Miscellaneous Revenues	148,832	122,107	26,720	5
Interest Earned	88,332	83,043	669	4,620
Total Operating Revenue	<u>\$ 5,781,594</u>	<u>\$ 5,461,041</u>	<u>\$ 187,928</u>	<u>\$ 132,625</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

LETCHER COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Over (Under) Budget
General Government	\$ 762,406	\$ 660,535	\$ (101,871)
Protection to Persons and Property	1,229,623	1,075,402	(154,221)
General Health and Sanitation	1,256,683	1,131,216	(125,467)
Social Services	17,600	14,429	(3,171)
Recreation and Culture	164,250	94,482	(69,768)
Roads	1,329,666	1,206,688	(122,978)
Debt Service		3,804	3,804
Capital Projects	3,161,146	566,914	(2,594,232)
Administration	926,427	686,582	(239,845)
Total Operating Budget - General Fund Type	\$ 8,847,801	\$ 5,440,052	\$ (3,407,749)
Other Financing Uses:			
Borrowed Money-			
Bank Note - Principal	202,000	200,085	(1,915)
Transfers to Public Property			
Corporation Fund	202,184	200,102	(2,082)
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 9,251,985</u>	<u>\$ 5,840,239</u>	<u>\$ (3,411,746)</u>

LETCHER COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2001
 (Continued)

<u>Expenditure Categories</u>	<u>SPECIAL REVENUE FUND TYPE</u>		
	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Over (Under) Budget</u>
Protection to Persons and Property	\$ 4,000	\$ 3,642	\$ (358)
General Health and Sanitation	51,200	48,216	(2,984)
Social Services	366,050	337,560	(28,490)
Administration	<u>83,609</u>	<u>55,586</u>	<u>(28,023)</u>
 TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	 \$ 504,859	 \$ 445,004	 \$ (59,855)

SCHEDULE OF OTHER EXPENDITURES

LETCHER COUNTY
SCHEDULE OF OTHER EXPENDITURES

For The Fiscal Year Ended June 30, 2001

<u>Expenditure Items</u>	<u>Public Properties Corporation 1964 Bond Issue</u>
Miscellaneous	\$ 1
	<hr/>
Totals	<u><u>\$ 1</u></u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Carroll A. Smith, Letcher County Judge/Executive
Members of the Letcher County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Letcher County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated November 26, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Letcher County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Fiscal Court Should Review The Administrative Code Annually
- The County Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Receipts Should Be Properly Posted To The Receipts Ledger
- The County Treasurer Should Prepare A Federal Expenditures Schedule
- The Jailer Should Submit His Annual Jail Commissary Report To The County Treasurer
- The Jailer Should Properly Account For Jail Canteen Transactions

In planning and performing our audit, we considered Letcher County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Letcher County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- The County Should Properly Account For Payroll Revolving Accounts
- The Fiscal Court Should Maintain Correct Records

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 26, 2002

COMMENTS AND RECOMMENDATIONS

LETCHER COUNTY
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2001

NONCOMPLIANCES

1. The Fiscal Court Should Review The Administrative Code Annually

We found no evidence that the fiscal court annually reviews the administrative code. Additionally, we were unable to determine when the fiscal court adopted the administrative code. According to KRS 68.005 the fiscal court shall review the county administrative code during the month of June and may by a two-thirds majority of the entire fiscal court amend the county administrative code at that time. We recommend that fiscal court approval of the administrative code be documented in the fiscal court minutes. Furthermore, we recommend that fiscal court review the administrative code on an annual basis as required by KRS 68.005. The review should be documented in the fiscal court minutes as evidence of fiscal court approval

County Judge/Executive Carroll Smith's Response:

I agree. I will put the administrative code on the agenda for June 2003.

2. The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On August 30, 2000, \$61,666 of the county's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Carroll Smith's Response:

The county treasurer says all deposits are secure at this time.

3. Receipts Should Be Properly Posted To The Receipts Ledger

The county treasurer did not properly classify state and federal receipts on the county's financial statement. These misclassifications caused the financial statements to be inaccurately stated and created problems with the identification of federal grant activity. The Uniform System of Accounts requires that revenue be posted to the receipts ledger according to source. Therefore, the county treasurer should determine the nature and source of revenue before posting to the receipts ledger. We recommend that this practice be implemented immediately to ensure that the financial statements are properly presented and to eliminate reconciling problems relating to federal grant activity.

County Treasurer Phillip Hampton's Response:

With the telephone number the state auditor gave to me, all grant receipts will be checked to determine the source of the revenue.

LETCHER COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2001
(Continued)

NONCOMPLIANCES (Continued)

4. The County Treasurer Should Prepare A Federal Expenditures Schedule

The county did not prepare a schedule of federal expenditures. It is the county's responsibility to identify the total dollar amount of federal expenditures and to obtain a single audit if federal expenditures equal or exceed \$300,000 during the fiscal year. Because of this, it is very important that the county treasurer maintain a running total of federal grant expenditures and to maintain detailed grant records. The county treasurer should prepare a separate file for each grant. Within each file, the county treasurer should maintain a breakdown of federal share, state share and local share of grant expenditures. This information would then be used to compile the federal expenditures schedule at the end of the fiscal year. We strongly recommend that the county implement these procedures immediately to ensure that their schedule of federal expenditures is prepared.

County Treasurer Phillip Hampton's Response:

I have a ledger that breaks down all grant receipts. This ledger is brought up to date each month. I will see that this report is prepared from this point on.

5. The Jailer Should Submit His Annual Jail Commissary Report To The County Treasurer

The Jailer did not submit a jail canteen annual report to the county treasurer as required by KRS 441.135. In addition, the jailer did not prepare his monthly reports and ledgers in accordance with the Uniform System of Accounts. We noted the following deficiencies with the monthly reports and ledgers:

- Deposits were not itemized according to source.
- Disbursements were not classified according to expenditure type.
- An accurate bank reconciliation was not prepared.

We recommend that the jailer itemize all receipts according to source, classify all disbursements according to expenditure type and prepare monthly bank reconciliations. In addition, we recommend that the jailer submit an annual settlement of the jail canteen account to the county treasurer as required by KRS 441.135. The annual settlement should be submitted to the treasurer during an official fiscal court meeting and should be documented in the fiscal court minutes.

County Jailer Gary Cornett's Response:

I'll start doing this.

LETCHER COUNTY
 COMMENTS AND RECOMMENDATIONS
 For The Fiscal Year Ended June 30, 2001
 (Continued)

NONCOMPLIANCES (Continued)

6. The Jailer Should Properly Account For Jail Canteen Transactions

The jailer did not properly account for all jail canteen transactions. During our test of jail commissary transactions, we noted the following:

- Prenumbered receipts were not issued for all jail canteen transactions.
- Checks were not issued for all inmate refunds.
- Receipts were not batched to a daily check out sheet on a daily basis.

The Uniform System of Accounts requires that prenumbered receipts be issued for all receipts and that checks be issued for all disbursements. In addition, the Uniform System of Accounts requires that all receipts be batched and deposited daily. Therefore, we recommend that the practice of cash refunds be stopped. All disbursements should be made by check regardless of the dollar amount. In addition, a prenumbered receipt should be issued for all receipts collected regardless of the dollar amount. All receipts should be batched and deposited daily.

County Jailer Gary Cornett's Response:

I'll start doing this.

REPORTABLE CONDITIONS

1. The County Treasurer Should Properly Account For Payroll Revolving Accounts

The county treasurer did not properly account for the payroll revolving account. There was a deficit cash balance of \$8,233 in the payroll revolving account as of June 30, 2001. In addition, we found that the payroll revolving account did not reconcile to a zero balance and there were three other months where there was a deficit balance in the payroll account. Payroll related revolving accounts are clearing accounts and should reconcile to a zero balance at the end of each month. Therefore, only the exact amount needed to cover the payroll expenditures should be transferred to the revolving account. We recommend that the county properly account for payroll revolving accounts. Specifically, we recommend that the following procedures be implemented:

- The payroll clerk should provide written documentation of the reconciliation between the transfer checks, the payroll register and the payroll checks for each pay period.
- Before the county treasurer signs the transfer checks, he should review the written documentation of the reconciliation between the payroll registers, payroll checks and transfer checks for mathematical accuracy.
- On a monthly basis, the county treasurer should monitor the activity of the payroll revolving bank accounts. If the payroll revolving accounts do not reconcile to a zero balance at the end of each month, he should report this information to the County Judge Executive so corrective action can be taken.

LETCHER COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2001
(Continued)

REPORTABLE CONDITIONS (Continued)

1. The County Treasurer Should Properly Account For Payroll Revolving Accounts (Continued)

We recommend that these procedures be implemented immediately to ensure that payroll transactions are properly accounted for.

County Treasurer Phillip Hampton's Response:

I have informed the payroll clerk that at times we have a minus or positive balance in the payroll account. From this point on, I will inform the county judge of the balance of the payroll statement at the end of the month. The payroll clerk has always went back to check account when she was informed.

2. The Fiscal Court Should Maintain Correct Records

The cash balance reflected on the county's financial statement did not agree with the reconciled bank cash balance for the road fund. These amounts should agree and any variance should be reconciled. The State Local Finance Officer, under the authority of KRS 68.210 requires the County Treasurer and Finance Officer to keep accurate records and detailed accounts of the financial transactions of the County. We recommend that the County Treasurer and the Finance Officer investigate and reconcile any variances between the book balance and bank balance.

County Judge/Executive Carroll Smith's Response:

The County Treasurer and Finance Officer say the balances reconcile now.

PRIOR YEAR FINDINGS

- The Fiscal Court Should Review The Administrative Code Annually
- The County Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- Receipts Should Be Properly Posted To The Receipts Ledger
- The County Should Prepare An Accurate Federal Expenditures Schedule
- The Jailer Should Submit His Annual Jail Commissary Report To The County Treasurer
- The Jailer Should Properly Account For Jail Canteen Transactions
- The County Should Properly Account For Payroll Revolving Accounts
- The Fiscal Court Should Maintain Correct Records

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

LETCHER COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2001


CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS


LETCHER COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Letcher County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

